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SUBJECT: TEXTILES AND APPAREL SECTOR: CROATIA

REF: STATE 114799

11. In response to reftel, the following are the main sector data for the Croatian textiles and apparel industry. According to information from the Croatian Chamber of Economy and Central Bureau of Statistics:

- Total industrial production- sale value: (2005 - most recent official data available): \$19.8 billion
- Total textile production- sale value: (2005 - most recent official data available); \$800 million
- Textile/apparel share of Croatian imports: for 2006 was 3.7 percent, for January-July 2007 was 3.9 percent
- Textile/apparel share of Croatian exports: for 2006 was 6.6 percent, for January-July 2007 was 6.2 percent
- Exports in textiles and apparel to the US: (2005- most recent official data available) \$3.24 million
- Total manufacturing employment (2006): 248,775
- Total textiles and total apparel employment (2006): 35,141

12. According to the Croatian Chamber of Commerce, Croatian manufacturers reduced prices up to 50 percent due to international competition in 2005, but there have been no drastic cuts since. On average, manufacturers have had the same number of orders in recent years, with seasonal fluctuations and fluctuations according to design and fabric. There are no Asian investors among foreign investors in the Croatian textile sector. The three largest investors are Benetton (Italy), Calzedonia (Italy), and Boxmark (Austria). There have been incidents of company closures and investors pulling out of local production and, due to increasing competition, more are expected. According to Mirjana Gambiroza-Jukic, head of the Textiles Production and Processing Department at the Croatian Chamber of Economy, dated technology and greater demands for complicated apparel design have also negatively affected domestic producers. Some have organized their production by moving sewing and pressing to other countries in the region.

13. EU measures restricting imports of textiles and apparel from China have helped Croatian manufacturers. Croatia has not unilaterally implemented any restrictions on imports from China. However, according to Gambiroza-Jukic, the apparel industry does not export a substantial amount because of strict EU rules of origin for textiles. Gambiroza-Jukic added that once Croatia joins the EU, the rules of origin will serve as a benefit for the industry.

14. Croatia's textile industry has been under severe pressure because of dislocations resulting from the transition to a market economy as well as the growing role of Chinese production. Employment in the textile sector has been decreasing for several years. Experts in the field hope the recently drafted Textile Development Strategy will help maintain employment, but they do not expect an increase.

¶5. In an effort to improve the situation, the GoC offers incentives including non-repayable financial support for environmental protection and incentives for worker training. While the volume of textile manufacturing is decreasing overall, some Croatian companies are attempting to find a niche in design by producing goods with higher added value and are exporting brands that are popular in the region and EU.

¶6. The GoC recently drafted the Textile Development Strategy in an effort to strengthen the position of the textile industry in the country. Given the industry's decline over recent years, however, Post does not expect the strategy to result in serious advances.

¶7. Free trade agreements between Croatia and other countries have helped Croatia, but have not been enough to create new export opportunities for the textile industry.

¶8. As with many sectors of the Croatian economy, the textile industry lags behind foreign competition. Companies need to make substantial investments in manufacturing technology and equipment to survive in the near term. The industry's long-term prospects remain uncertain.

Bradtke